

## **FINANCIAL SECTOR**

### *Law of Georgia on Global Competitive Capacity of Financial Sector*

On March 14, 2008, the Parliament of Georgia approved the **Law of Georgia on Global Competitive Capacity of Financial Sector** proposed by the Prime-Minister of Georgia Lado Gurgenidze. The Law on Global Competitive Capacity of Financial Sector is aimed at development of Georgia as the global financial center, integration of the financial system of Georgia into the worldwide financial system as well as its compatibility with the regulatory framework of worldwide financial system. The final purpose of the Law is the increase of the competitive capacity of Georgia.

In order to achieve the aforementioned goals, the Law envisages major changes to the customs and tax legislation of Georgia. Various bureaucratic and legal barriers are lifted for international financial institutions coming to Georgian market. Regulation of financial institutions is liberalized in a number of ways. Namely, licensing procedures with respect to free industrial zones will be simplified and the rights of controlling bodies will be limited. Furthermore, the law provides for facilitation of taxation regime for international financial organizations, e.g. income received from financial transactions, such as rendering of financial services, surplus gain received from sale of securities issued by companies, income received as dividends, income received from the activities within a free industrial zone – will be exempt from taxes.

In addition, the Law envisages adoption of a new law – the Financial Code of Georgia, which shall embody the relations currently regulated under the laws of Georgia on Activities of Commercial Banks, Insurance, Microfinance Organizations, Securities and on Non-Banking Deposit Institutions-Credit Unions.

In addition to the Law on Global Competitive Capacity of Financial Sector the Parliament adopted other related laws (altogether 24 laws).

### *Amendments to the Law of Georgia on the National Bank of Georgia*

On March 18, 2008, the Parliament adopted amendments to the **Law of Georgia on the National Bank of Georgia**. Among other, the amendments introduce a new regulatory body, - the Financial Supervision Agency. The mentioned Agency shall be established under the auspices of the National Bank of Georgia and shall exercise control over the financial sector.

### *Amendments to the Law of Georgia on Commercial Banks*

On March 18, 2008, the Parliament adopted amendments to the **Law of Georgia on Commercial Banks**. Pursuant to the amendments, the Financial Supervision Agency of Georgia shall assume control over the activities of commercial banks, including registration, licensing, inspection and other. Furthermore, by virtue of the amendments, the mandatory corporate structure of commercial banks has been changed and namely, instead of the Revision Commission, the Audit Committee shall be established. The Audit Committee shall function within the framework of the Supervisory Council and its main functions shall be supporting of functioning of the internal and external audit of a commercial bank.

### *Amendments to the Law of Georgia on Micro Finance Organizations*

On March 18, 2008, the Parliament adopted amendments to the **Law of Georgia on Micro Finance Organizations**. Pursuant to the amendments, the Financial Supervision Agency shall carry out registration and supervision of the micro-finance organizations of Georgia.

### *Amendments to the Law of Georgia on Securities*

On March 18, 2008, the Parliament adopted amendments to the **Law of Georgia on Securities**. By virtue of the amendments, the Stock Exchange and Central Depository were added to the list of financial institutions. The law differentiates between ownership and membership of the Stock Exchanges and Central Depositories, i.e. these concepts are separated and it has been clearly defined that existence of a multitude of Stock Exchanges is possible in Georgia. The commercial banks have been assigned the functions of the depository. Any financial institution shall be entitled to become the member of one or several stock exchanges. Furthermore, the amendments have improved the conditions for issuing of licenses to Stock Exchanges and Central Depositories.

### **ENTREPRENEURIAL ACTIVITIES**

#### *Amendments to the Law on Entrepreneurs*

On March 18, 2008, the Parliament extensively amended the **Law of Georgia on Entrepreneurs**. The amendments simplify the registration procedure of commercial legal entities. Registration of commercial entities shall take place on the basis of the application form and signature samples of the persons authorized to manage and represent the company. It is notable, that the companies' charters are no longer submitted and registered with the registering authority. The amendments also allow registration of the company in accordance with the Law of Georgia on Electronic Signature and Electronic Documents. Further, the amendments permit re-domiciliation of entities. The provisions of the Law governing the activities of trade representatives, independent commissioners and trade brokers are no longer mandatory and shall be governed on the basis of a contract. The amendments also introduce a new form of entrepreneurs, the Entrepreneur Partnership. Most importantly, the internal relationships of commercial entities, as well as the relationships with the third parties, including the internal

organizational structure, the decision-making procedures, distribution of profit and other issues are no longer regulated by statutory provisions and may be regulated by virtue of the companies' charters or partnership agreements.

The main purpose of these changes is to improve and liberalize the relations within the entrepreneurial sector and to remove those regulations, which are not practiced.

### **TAX**

#### *Amendments to the Tax Code*

On March 18, 2008, the Parliament adopted amendments to the **Tax Code of Georgia**. The amendments introduce definitions of an International Financial Company and concepts of a Free Warehouse Enterprise and of an International Company and regulate the issues of granting and cancellation of such status to the companies. The Law envisages liberalization of taxation regime for international financial organizations, e.g. income received from financial transactions, such as rendering of financial services, surplus gain received from sale of securities issued by companies, income received as dividends, income received from the activities within a free industrial zone – will be exempt from taxes. The amendments also envisage gradual decrease of the rate of Income Tax from 25% to 15%.

### **OTHER**

#### *Law on Electronic Signature and Electronic Document*

On March 18, 2008, the Parliament adopted **Law of Georgia on “Electronic Signature and Electronic Document”**. The Law introduces and legitimates the electronic signature and electronic document. The legal basis for using electronic signature, in public administration (government) and civil relations has been established. An electronic (digital) signature on the document was given the legal force of the individual (ordinary) signature on the material document.